

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION**  
**Revision 1**

**May 31, 2009**

**TO:** Honorable David Dewhurst , Lieutenant Governor, Senate  
Honorable Joe Straus, Speaker of the House, House of Representatives

**FROM:** John S. O'Brien, Director, Legislative Budget Board

**IN RE: HB3646** by Hochberg ( relating to public school finance and programs.), **Conference Committee Report**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3646, Conference Committee Report: a negative impact of (\$1,996,186,924) through the biennium ending August 31, 2011.

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	(\$956,118,462)
2011	(\$1,040,068,462)
2012	(\$1,256,668,462)
2013	(\$1,587,668,462)
2014	(\$1,159,368,462)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Probable Savings/(Cost) from <i>Foundation School Fund</i> 193
2010	(\$16,918,462)	(\$939,200,000)
2011	(\$20,068,462)	(\$1,020,000,000)
2012	(\$34,068,462)	(\$1,222,600,000)
2013	(\$38,068,462)	(\$1,549,600,000)
2014	(\$42,068,462)	(\$1,117,300,000)

Fiscal Year	Change in Number of State Employees from FY 2009
2010	1.0
2011	1.0
2012	1.0
2013	1.0
2014	1.0

**Fiscal Analysis**

The bill would make substantial changes to the formulas and provisions of the Foundation School Program.

The bill would establish a basic allotment based on district's compressed tax rate, where the allotment would be the greater of \$4,765 or the amount produced by multiplying the statewide average property wealth per weighted student (WADA) by a factor of 0.0165 for fiscal years 2010-2013. Beginning in fiscal year 2014, the allotment would be \$4,765. The allotment potentially would be prorated to the degree to which a district's compressed rate is less than the state maximum compressed rate of \$1.00.

The equalized wealth level applicable to district tax effort at the compressed rate would be established as the property wealth per WADA dollar amount equivalent to the basic allotment.

The bill would establish the high school allotment as a stand-alone allotment within Subchapter C, Chapter 42, Education Code. The bill would provide a Foundation School Program (FSP) allotment of \$50 per student enrolled in two or more advanced career and technology courses or an advanced course as part of a tech-prep program.

The bill would provide a minimum guaranteed increase of \$120 per weighted student in average daily attendance (WADA) over what districts would have received under current law in FY2010. The bill would establish a limit on the amount of gain in total maintenance and operations (M&O) revenue per weighted student (WADA) a district could receive. For FY2010, a \$350 per WADA limit on gain would apply to non-enrichment M&O revenue the district would have received under the current law formula in FY2010. Starting in FY2011, the limit would be \$350 per WADA over the non-enrichment M&O revenue received during the preceding school year.

In addition, the bill would eliminate a number of funding and hold harmless provisions contained in the Education Code. Of particular note is that the bill would eliminate the "target revenue" structure currently codified within Section 42.2516, Education Code. Set-asides from the compensatory allotment authorized under 42.152 would be eliminated. The repeal of 42.103(e) would allow eligible Chapter 41 districts to receive the mid-sized adjustment.

The bill would require charter schools and school districts to use the greater amount of \$60 per WADA or \$800 per employee on the minimum salary schedule to provide uniform salary increases to full-time employees on the schedule, plus speech pathologists. The bill would provide an equivalent amount of state aid to the Windham School District for the same purpose. The bill would repeal of Chapter 21, Subchapter N, eliminating the Texas Educator Excellence Grants (TEEG) program.

The bill would create a special education grant to assist certain districts with expenses related to the education of special education students that exceed revenue generated by those students.

The bill amends the Education Code provisions related to the Texas Virtual School Network (TxVSN). The bill would allow a student to enroll full-time in courses provided through the TxVSN only if the student was enrolled in a Texas public school in the preceding school year. The bill would require the Texas Education Agency (TEA) to pay reasonable costs to evaluate and approve electronic courses, and provides priorities for course evaluation and approval if the TEA did not have sufficient funds. The bill also would allow TxVSN providers to pay the costs for evaluation and approval of submitted courses if the TEA determined that it would not have sufficient funds to evaluate and approve the courses.

The bill would provide, for each student who successfully completed a TxVSN course as part of a normal course load, an allotment of \$400 to the district or charter school that provided the course and an allotment of \$80 to the district or charter school in which the student was enrolled as reimbursement for administrative costs. The bill also would entitle juvenile probation departments and state agencies to receive comparable state funding for students under their supervision.

The bill would establish a program under which school districts with bonds not covered under the state's existing bond guarantee program could apply for credit enhancement of bonds by certain monies appropriated for the Foundation School Program. A similar program also would be established for open-enrollment charter schools.

The bill would amend Section 29.915, Education Code to expand the number of school districts participating in the financial literacy pilot program from 25 to 100. The bill would also require the Texas Education Agency to submit a report to the legislature in January 2011 regarding program

implementation and effectiveness.

The bill would establish a permanent roll-forward mechanism for the eligibility of school district bonds for state assistance under the Existing Debt Allotment program.

The bill's provisions related to the FSP would take effect September 1, 2009.

## **Methodology**

The bill would have a significant impact on state costs for the Foundation School Program. The bill would establish the basic allotment at the greater of \$4,765 or the amount produced by multiplying the statewide average wealth per WADA by a factor of 0.0165, for a district with a compressed rate of \$1.00. The equalized wealth level applicable to a district's compressed tax effort would be set to a wealth per WADA level equivalent to the basic allotment. The limit on revenue gain established by the bill would be \$350 per WADA over current law FY2010 for FY2010, and \$350 per WADA over the preceding year for FY2011 and beyond. The bill would establish a minimum guaranteed increase of \$120 per WADA over current law FY10 state and local revenue attributable to a district's compressed rate.

Under these and other provisions of the bill affecting Chapters 41 and 42 of the Texas Education Code, and under current assumptions of property values and student growth, state costs are estimated to increase over current law by approximately \$938 million in FY2010 and \$1,019 million in FY2011. Costs are expected to increase in FY2012 to \$1,222 million and in FY2013 to approximately \$1,549 million, as it is estimated that the basic allotment as calculated under the statewide average wealth per WADA methodology would exceed \$4,765. In FY2014, with the basic allotment reverting to \$4,765, costs are expected to decrease to approximately \$1,116 million over current law.

State costs to provide salary amounts to the Windham School District are estimated to be approximately \$1.1 million in FY2010, increasing slightly in each fiscal year thereafter.

Special Education Grant Program: Under the assumption that TEA would reimburse districts for special education expenditures in excess of twice the amount of revenues received, the grant program would cost an estimated \$17 million in FY2010, \$20 million in FY2011. Under the assumption that federal stimulus funds for special education do not continue after FY2012, costs would be projected to increase in FY2013 to \$34 million; should increased federal allocations continue, costs in the out years would decrease. TEA anticipates the need for 1 program specialist position to administer the grant program, at an estimated administrative cost of \$68,462 per year.

The anticipated growth in the Texas Virtual School Network (TxVSN) program would increase the infrastructure costs provided by a contract with Regional Education Service Center (RESC) X. The current contract amount is \$1.2 million annually. Professional fees to support the infrastructure costs are estimated to increase with the growth of the program. The incremental increase to the contract with RESC X would cost an estimated \$700,000 in fiscal year 2010; \$1 million in fiscal year 2011; \$1.44 million in fiscal year 2012; \$1.965 in fiscal year 2013; and \$2.76 million in fiscal year 2014. The bill would direct the TEA to pay reasonable costs to review electronic courses for the TxVSN. RESC IV has a current contract to review courses for a cost of \$300,000 per year. RESC IV has proposed to review 100 courses in fiscal year 2010 for an incremental increased cost of \$450,000 in fiscal year 2010 for 100 courses, with additional reviewed courses increasing out year costs steadily to an estimated \$1.3 million in fiscal year 2014 for 350 courses.

For the purposes of this estimate, it is assumed that one percent of the state high school population, or approximately 13,000 students, would enroll in an online course in FY2010. This generally reflects participation rates in online program provider districts that are currently serving other school districts. These courses at the \$400 per course allotment would entail a \$6.24 million state cost in FY2010. For the purposes of this fiscal note, it is assumed that virtually all online courses taken are completed, thus earning the state allotment. Course completions are assumed to increase by approximately 10,000 in each of the next 4 years, resulting in state allotment cost increases of \$4 million each year. The bill would also provide an \$80-per-student administrative overhead allotment for districts with students enrolled in TxVSN electronic courses, also known as receiving districts. Based on the assumptions

described above, the administrative cost would be \$1,040,000 in FY2010, increasing by \$800,000 each year thereafter as course completions increase.

For the purposes of this fiscal note, it is assumed that costs associated with TxVSN would be covered by appropriations already approved for this purpose by the conference committee in the General Appropriations bill.

The bill's provisions related to the credit enhancement of school district bonds would have an impact on the operations of the Texas Education Agency (TEA) by requiring the operation of an additional program. The TEA believes that the additional workload could be managed within existing personnel resources. The Texas Education Agency estimates a one-time cost of \$150,000 in FY10 to complete the proposed report concerning program implementation and effectiveness of the financial literacy pilot program.

The permanent roll-forward of the EDA eligibility date is estimated to cost approximately \$35.5 million in FY2010, \$34.3 million in FY2011, slightly decreasing annually to \$30.9 million in FY2014. For the purposes of this fiscal note, it is assumed that this cost would be covered by appropriations already approved for this purpose by the conference committee in the General Appropriations bill.

### **Technology**

TEA would be required to modify the FSP payment system in order to accommodate the changes made by the bill. Costs to implement these modifications are estimated to be \$200,000 in FY2010.

### **Local Government Impact**

All districts would realize an increase in M&O revenue under their compressed rate compared to what they would have received under current law in FY2010. The minimum increase would be \$120 per WADA over current law FY2010.

The state's bond guarantee program currently has no capacity under federal regulations to guarantee additional bonds. The bill would allow school districts to continue to benefit from a state program that can reduce their interest costs for general obligation bonds.

The bill would authorize school districts to enter into contracts with institutions of higher education to contribute school district resources to pay a portion of the costs of the design or construction of an instructional facility, stadium, or other athletic facility that is owned by or under the control of the institution. The contribution of school district resources would be authorized only if the district and institution of higher education enter into a written agreement authorizing the district to use the facility. It is assumed that affected districts would consider any potential implications for increased local cost or savings prior to executing the authorized contractual arrangements.

School districts (provider districts) would receive \$400 for each course through the Texas Virtual School Network that they provided that was successfully completed by a student. School districts receiving services for electronic courses for their students (receiving districts) would receive an administrative allotment of \$80 per student.

Some school districts receiving funds for campuses participating in the TEEG program may see reduced funding, but the actual fiscal impact may depend on the Texas Education Agency's implementation of the remaining District Awards for Teacher Excellence (DATE) program.

Qualifying districts that have made payments on eligible bonds also would receive additional state aid through the EDA.

### **Source Agencies:**

**LBB Staff:** JOB, JSp, JGM